105th Congress, 1st Session: No. 5 February 10, 1997

INFORMED BUDGETEER

OMB AND CBO BASELINE DIFFERENCES

- Both OMB and CBO take into account the economic feedback from balancing the budget in 2002 and have included a "fiscal dividend" in their baseline estimates. However, CBO's published post-policy baseline, with its deficit of $154 billion in 2002, is not directly comparable to the $101 billion deficit projected by OMB.

- OMB's current services baseline assumes that discretionary spending increases at the rate of inflation from the 1997 appropriated level, unconstrained by the statutory BEA cap in 1998 (which is about $15 billion lower in outlays). CBO's baseline assumes that discretionary spending is held at the level of the cap in 1998 and allowed to increase at the rate of inflation in following years after the statutory authority expires.

- If CBO uses the OMB approach and inflates discretionary spending from the 1997 level, this would add about $70 billion to their spending baseline, increasing the post-policy deficit to $167 billion in 2002. This baseline estimate was publicly released in testimony before the House Budget Committee on February 13 and is the same baseline used in the comparison table on page 5 of the SBC majority staff overview of the President's 1998 budget released February 6.

- Although CBO will not complete its analysis of the President's budget for several weeks, it is clear that most of the differences in the baseline outlay and revenue estimates are due to economic assumptions. CBO projects higher spending for benefit programs linked to the CPI because it assumes about 0.3 percentage points more inflation than the Administration. CBO also assumes that long-term interest rates will be higher, which increases projected net interest payments.

- On the revenue side of the budget, CBO projects lower revenues than OMB primarily because CBO assumes a smaller share of national income will be in categories that produce higher revenues, such as wage and salary disbursements and corporate profits. CBO's higher CPI assumption also restrains revenue estimates because the CPI is used to index brackets for the individual income tax.

- Total baseline differences between OMB and CBO amount to $187 billion over the five-year budget period and $66 billion in 2002. By contrast, last year CBO's deficit estimates over the same period were $364 billion higher than OMB's baseline, with a $101 billion difference in 2002.

Comparison of Current services
(Outlays/revenues in billions of dollars)

	1997	1998	1999	2000	2001	2002	Total
CBO							
Discretionary	547	559	574	593	602	622	3,498
Mandatory	837	891	959	1,032	1,081	1,156	5,954
Net Interest	248	253	260	260	258	259	1,539
Total Spending	1,632	1,703	1,793	1,885	1,941	2,038	10.991
Revenues	1,508	1,568	1,635	1,710	1,789	1,871	10,080
Deficit	124	135	158	175	152	167	911
OMB							
Discretionary	551	553	575	587	602	617	3,485
Mandatory	833	890	957	1,022	1,071	1,138	5,911
Net Interest	248	250	252	250	249	247	1,497
Total Spending	1,631	1,693	1,785	1,859	1,922	2,002	10,893
Revenues	1,504	1,574	1,645	1,731	1,814	1,902	10.169
Deficit	128	120	140	128	108	101	724
Difference							
Discretionary	4	-5	1	-6	-1	-5	-12
Mandatory	-3	-1	-2	-10	-9	-18	-44
Net Interest	-3	-3	-8	-10	-9	-12	-43
Total Spending	-0	-9	-9	-26	-19	-35	-98
Revenues	-4	6	9	21	25	31	89
Deficit	4	-15	-18	-48	-44	-66	-187

SOURCE: Congressional Budget Office

AMERICAN FAMILY TAX RELIEF ACT

- The American Family Tax Relief Act, S. 2, was introduced on the first day of the 105th Congress by Senator Roth and Majority Leader Lott. It has 33 co-sponsors to date.

- The bill attempts to accomplish most of the remaining tax relief provisions in the original Republican Contract With America. It contains a $500 per child tax credit, a 50% deduction for individual capital gains, a 28% top rate on capital gains for corporations, capital gains indexing, estate tax relief and IRA expansions.

- The Joint Committee on Taxation estimated that S. 2 would reduce the tax burden on American families by $193.4 billion over the 1997-2002 time frame. The child credit cuts taxes by $109 billion, capital gains reduces taxes by $33.1 billion, estate tax relief totals $18.6 billion, and IRA expansion reduces taxes by $32.7 billion.

SHOW ME THE BALANCE: (More on that Trigger)

- The table below shows that the President has a $49 billion hole to fill in 2002 in order to balance the budget under CBO assumptions. OMB and CBO's baseline deficits differ by $66 billion in 2002; the President proposes a surplus of $17 billion in 2002. In order to reach balance by 2002 under CBO assumptions, the President must raise revenues or cut spending by an additional $49 billion in 2002.

- Obviously, the hole could be larger than $49 billion, depending on CBO's estimates of the Administration's legislative proposals. The calculations below only include differences due to economic assumptions.

- The President would sunset most of his tax cuts after the year 2000. This achieves $22 billion, or about 45 percent of the extra savings he needs in 2002 to balance under CBO's assumptions. The identified tax cuts are repealed automatically -- a future Congress and a future President would have to reinstate the tax cuts through additional legislation if they wanted to retain them.

- The President also proposes an across-the-board, Gramm-Rudman-like "mechanism" to reduce spending by $23.4 billion in 2002. Lastly, he proposes a CPI-minus-2.25% COLA for mandatory programs with COLAs (excluding social security) to achieve $3.6 billion in savings in 2002.

Balancing the President's Budget With CBO Assumptions
($ in Billions)

	2001	2002
CBO baseline deficit	-152.5	-166.6
OMB baseline deficit	-108.5	-100.8
Difference	-44.0	-65.9
President's proposed deficit/surplus	-36.1	17.0
Additional savings needed to reach balance		49.0
Pulling the trigger:		
End tax credit for dependent children	5.3	10.4
End expanded IRAs	0.4	1.7
End tax credit/deduction for education	1.1	9.4
End tax incentives for distressed areas	0.3	0.4
Cut non Social Security COLAs-2.25%in 2002	--	3.6
Cut Medicare by 2.25% in 2002	--	6.5
Cut Medicaid by 2.25% in 2002	--	3.0
Cut other mandatory programs -2.25% in 2002	--	1.3
Cut Discretionary BA -2.25% in 2001 & 2002	7.6	10.9
Debt Service	0.3	1.7
TOTAL SAVINGS	15.0	49.0

SOURCE: SBC calculations based on information provided by OMB.

OH WHERE, OH WHERE HAS MY TAX CUT GONE?

- One of the major criticisms of the President's *1997* budget was that, in order to balance in 2002 under CBO assumptions, his tax cuts would sunset after 2000 but his tax increases would remain in effect. This resulted in a net tax increase in 2002 of $16 billion, and a net tax cut over 1996-2002 of only $6 billion.

- This year's budget contains a similar mechanism to sunset the largest tax relief provisions (see "Show Me The Balance" in this

Bulletin). The result is a net tax increase in 2002 of $17 billion, and an net tax increase over the 1998-2002 period of $6.4 billion.

- The President counts many of his proposed fee increases, such as aviation user fees and FDIC bank examination fees, as part of his overall tax increase numbers. However, there are about $9 billion in other fee increases that he does not show on the revenue ledger, including food inspection fees, immigration and passport fees and Veterans' Administration loan fees. If these fees are counted as tax increases, then the President's budget increases taxes by $19 billion in 2002 and by $15 billion over the 1998-2002 period.

Clinton Tax Proposals
($ in Billions)

	1997	1998	1999	2000	2001	2002	98-02
Subtotal tax relief[1]	-1.4	-18.7	-16.7	-20.3	-22.6	-23.5	-101.8
Subtotal tax increases[1]	3.0	11.7	15.4	16.6	17.2	18.7	79.6
Net tax change- before trigger	1.6	-7.0	-1.4	-3.7	-5.5	-4.9	-22.4
Mechanism to sunset tax cuts	--	--	--*	*	7.0	21.9	28.9
Net tax change- after trigger	1.6	-7.0	-1.4	-3.7	1.5	17.0	6.4
User fees not counted as tax increases	--	0.8	1.9	2.0	2.0	2.0	8.8
Net change-after trigger & user fees	1.6	-6.2	0.5	-1.7	3.5	19.0	15.1

*Less than $50 million
[1]The numbers in this table for tax relief and tax increases differ slightly from those presented in the President's budget because he did not categorize a $3.3 billion revenue loss provision (extension of GSP) as tax relief, and this table does. The President included it in his overall tax increase number.
SOURCE: SBC staff calculations based on information contained in the President's 1998 budget and information provided by OMB.

STOP CORPORATE WELFARE CAMPAIGN TAKES AIM AT INTERNATIONAL PROGRAMS

- The Stop Corporate Welfare (SCW) Coalition took aim recently at eliminating "corporate welfare" items in the International Affairs budget, claiming over $3.9 billion in 5-year savings. Estimated savings using CBO's newly released baseline reveals little impact on the deficit -- $28 million over the same period.

- Three international programs were targeted by SCW including the Overseas Private Investment Corporation (OPIC) and the International Monetary Fund's General Arrangements to Borrow (GAB) and Enhanced Structural Adjustment Facility (ESAF). Neither of the IMF programs are in the present baseline since they received no appropriation in 1997. The result is no deficit reduction as a result of their elimination.

- In 1997, OPIC received a $32 million appropriation for administrative expenses and a $72 million subsidy appropriation. Available to the Foreign Operations Appropriations Act was $224 million in offsetting collections.

- If OPIC were eliminated, the current insurance policies would remain and administrative costs would level off at 15-20% of the current level. Some staff would be retained to handle claims, defaults and recoveries.

- OPIC's offsetting collections are insurance premiums collected less claims, and interest earned on reserves.

- Eliminating OPIC would gradually reduce the insurance premiums received by OPIC, but there would be a delayed impact since some insurance policies would be held for 20 years.

- OPIC also carries an approximate reserve of $2.5 billion in Treasury securities that earns about $180 million per annum.

- The following table summarizes the net impact on the deficit:

Deficit Impact of SCW International Program Terminations
($ in Millions)

		1998	1999	2000	2001	2002
OPIC	BA	-68	-63	-58	-55	-52
	OT	+1	-1	-3	-10	-15
IMF GAB	BA	0	0	0	0	0
	OT	0	0	0	0	0
IMF ESAF	BA	0	0	0	0	0
	OT	0	0	0	0	0

FIRST NINE RESCISSIONS OF 1997

- On February 10, the President transmitted to the Congress nine rescissions for 1997. (What's a rescission? Check out the glossary of budget terms in the reference section of our new web site). The rescissions total $397.1 million and are listed below:

Item	Resources ($ in Millions)
Dept. of Agriculture- Foreign Ag Service	
P.L. 480 grants - Titles I (OFD), II, & III	3.5
P.L. 480 program account	46.5
Dept. Of Defense- Military	
Operation & Maintenance- Defense-wide	10.0
Procurement-Natl. Guard/reserve equipment	62.0
Dept. of Energy	
Strategic Petroleum Reserve	11.0
Power Marketing Administration	2.1
HUD- Public & Indian Housing Programs	
Annual Contributions for assisted housing	250.0
Dept. of Justice- General Administration	
Working capital fund	6.4
General Services Administration	
Expenses, Presidential transition	5.6
TOTAL RESCISSIONS	**397.1**

✯BUDGET COMMITTEE WEB SITE✯

The Senate Budget Committee has a new web site. In addition to the *Bulletin* being on the world wide web, you can now find the Senate Budget Committee instant analysis of President Clinton's FY 1998 budget, the Congressional Budget Process Committee Print, staff listing, press releases, links to other budget documents, legislation and more. You can find all of this at http://www.senate.gov/~budget/republican/.

EDITOR'S NOTE: The *Bulletin* would like to wish our readers a Happy Valentine's Day and remind you that the Bulletin will not be released next week due to the President's week recess. We'll be back on March 3rd, so for your weekly dose of budgetary wisdom we suggest a tour of our web site!